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RETIREMENT PLANS

The Board provides retirement benefits to its eligible regular employees through participation in one of the following two retirement plans:

- The Board Benefit Structure (Board Plan); or
- The Federal Reserve Bank Benefit Structure (Bank Plan).

Descriptions of both plans follow the ***Who Is Eligible*** heading next.

Who Is Eligible

Your hire date determines the plan in which you participate, as shown in the chart below.

If you were hired...	Then you participate in the...
before January 1, 1984 and you are not a member of the United States Civil Service Retirement System	the Board Plan
after December 31, 1983 and you contribute to Social Security	the Bank Plan

As of January 1, 1984, the Board Plan was closed to most new employees. The Board Plan remains open to some employees with previous participation and some employees who transferred from the federal government and were not covered by Social Security during that service.

For more information on eligibility, refer to the **INTRODUCTION** section.

BOARD BENEFIT STRUCTURE

The Board Benefit Structure (the Board Plan) is a component of the Retirement Plan for Employees of the Federal Reserve System. The Board Plan covers certain employees at the Board and, along with the Thrift Plan, provides participants with a source of income for their retirement years.

This section contains a detailed description of the Board Plan. Over the years, the Board Plan has been improved and updated. The effective date of the most recent amendments to the Plan, as described in this handbook, is January 1, 2002.

How The Plan Works

You must contribute a certain amount of your pay to the Plan. You may also make additional voluntary contributions. Then, as long as you have at least five years of creditable service, the Board Plan will pay you a benefit when you leave or retire.

The Board Plan pays a benefit in the form of an annuity — a monthly lifetime income — and/or in a lump sum amount that you can take with you if you leave or retire.

Coverage Cost

As a participant, you are required to contribute 7 percent of your basic salary to the Board Plan. For purposes of this Plan, basic salary means your regular annual pay plus differential for certain categories of participants, excluding any bonuses, overtime pay, and other extra compensation. These contributions are deducted from your biweekly paychecks on an after-tax basis and sent to the Retirement Trust to be credited to your contribution account. The Board pays any balance of the Plan cost. Your contributions may be refunded if you leave the Board. However, if you withdraw your mandatory contributions, you give up any rights to a retirement benefit.

If you do not have contributions in the Plan for any period of service — either because you did not make contributions or because you withdrew contributions — you can make a deposit or redeposit (plus interest) anytime before your retirement date.

While you are required to make a 7 percent contribution to the Plan, you are not covered under Social Security. Therefore, your wages are not subject to Social Security tax withholding requirements.

Voluntary Contributions

In addition to making your required Plan contributions, you may make voluntary contributions to increase the amount of your monthly retirement benefit. You can make voluntary contributions at any time before you retire.

Generally, you may make voluntary contributions of up to 10 percent of your annual basic pay on an after-tax basis, subject to certain limits imposed by the Internal Revenue Service (IRS). You may make your voluntary contributions through:

- Payroll deduction; or
- Lump sum payment(s).

These contributions receive interest compounded annually at a rate determined by the Secretary of the Treasury.

You may receive a refund of voluntary contributions at any time without affecting your credit for service.

Benefits Express:
The Retirement Plan's Interactive Voice Response System

You may access Plan benefit information by phone with *Benefits Express. Benefits Express,* an automated telephone system, provides you with around-the-clock access to information about your Retirement Plan benefit, and assistance with a variety of issues.

With *Benefits Express,* you can:

- Access your Plan benefit information toll-free, 24 hours a day, Monday through Saturday, and after 1 pm Eastern Time on Sundays by calling 1-877-FRS-CALL (1-877-377-2255); and
- Speak with a Benefits Specialist at the *Benefits Express Center,* Monday through Friday, from 8 am to 8 pm Eastern Time (call the toll-free number listed above).

With *Benefits Express,* you can access information about your Portable Cash Option (PCO) account and get estimates of your future Retirement Plan benefit. For detailed information about the PCO feature, please see the heading ***Portable Cash Option*** later in this section.

Benefits Express On-Line:
The Retirement Plan's Website

Benefits Express On-Line, the Retirement Plan's website, provides you with around-the-clock access to information about your Retirement Plan benefit, and allows you to make a variety of transactions. With *Benefits Express On-Line,* you can access your information from home or work, 24 hours a day, Monday through Saturday and after 1 pm on Sunday. The Internet address is http://resources.hewitt.com/benefitsexpressoeb.

Using *Benefits Express On-Line,* you can access information about your PCO account, model your retirement benefit using different assumptions (such as years of service and age), view and initiate the process to make changes to your beneficiaries, and view your recent transactions. When you're ready to retire, you can review the Plan's payment options, model payment scenarios, and select a payment option. After you retire, you can use the on-line system to update your personal information (such as your address, direct deposit instructions, and federal and state tax withholding information).

How The Plan Works

If you are eligible and meet the vesting requirements, the Board Plan will pay you a pension benefit in the form of an annuity, a lump sum, or a combination of the two.

The Board Plan uses two different formulas to calculate your benefit — a traditional annuity formula based on your final average pay and years of creditable service, and the Portable Cash Option (PCO) formula which provides for a lump sum payment. In determining your benefit, the Plan will use the formula that produces the larger benefit. The following explains how you, as an eligible vested employee, might receive your pension:

- As a lump sum distribution from the Plan, up to the value of your PCO;
- As a monthly stream of payments (annuity); or
- As both a lump sum payment (up to the value of your PCO) and an annuity.

Please Note: Your annuity benefit will be reduced by the amount of the lump sum payment you take. For more information about the PCO, please see the heading ***Portable Cash Option*** later in this section.

When You May Retire

Depending on your age and length of creditable service, you may be able to retire and begin receiving monthly benefits immediately (an "immediate annuity") if you are:

- Age 62 or older with at least 5 years of creditable service;
- Age 60 with at least 20 years of creditable service; or
- Age 55 with at least 30 years of creditable service.

If you leave the Board before qualifying for an immediate annuity, you become eligible to receive a deferred annuity beginning at age 62 as long as you:

- Have at least five years of creditable service; and
- Have not withdrawn your required contributions.

How Your Annuity Benefits Are Calculated

Your Board Plan annuity benefit is based on:

- Your highest average salary over three consecutive years; and
- Your years of creditable service.

These terms are explained next.

Highest Average Salary

Your highest average salary is your average annual compensation during your highest paid 36 consecutive months (three years) of service. It includes your base pay plus:

- Any regularly paid shift differential or availability pay;
- Salary deferred under the Thrift Plan or a cafeteria plan under Section 125 of the Internal Revenue Code; and
- After 2001, any variable pay (including cash and incentive awards) and lump sum merit increases you receive in the years that are included in your highest average salary.

To calculate your highest average salary, list your earnings for your highest-paid consecutive three-year period of service. Add the three figures and divide by three. For example, suppose your three highest-paid years were 1999, 2000, and 2001, and your earnings for this period are:

1999	$26,000
2000	$27,000
2001	$28,000

Your total earnings for this three-year period are $81,000. Divide the total by three to determine your average yearly compensation ($81,000 ÷ 3 = $27,000). In this example, your highest average salary over three consecutive years is $27,000.

Creditable Service

Creditable service is also used to determine your retirement benefit. It includes:

- All your service as a member of the Board Plan, beginning with your most recent employment date at the Board;
- Your service as a member of the Board Plan or the Bank Plan for any earlier period of employment with the Federal Reserve, as long as you pay any required contributions, with appropriate interest as required;
- Your honorable active service in the Armed Forces of the United States, as long as you are not receiving a retirement allowance for this service; and
- Your other creditable government service.

Unused sick leave as of your retirement date will be converted to creditable service and will increase your annuity. Service converted from unused sick leave cannot be used to make you eligible to retire.

There are two types of prior creditable service for which you may owe contributions, as explained in the chart below.

Creditable service	Definition	Effect
Redeposit service	Creditable service for which you withdrew required contributions (for example, you may have withdrawn such contributions made during an earlier period of membership in the Board or Civil Service Plan). This service is always creditable for determining eligibility to retire.	• If your service ended before October 1, 1990, and you do not redeposit your contributions plus interest, your service will count in the calculation of your annuity, but your benefits will be reduced based on the amount of redeposit due and your age at retirement. • For service after September 30, 1990, you must redeposit contributions plus interest for your service to be included in the annuity calculation.
Deposit Service	Creditable service for which you were not required to make contributions (for example, you may have creditable service from a Federal Reserve Bank, or temporary service with a federal agency). This service is always creditable for determining eligibility to retire	• For service before October 1, 1982, or in the case of certain types of service where free credit was intentionally provided, a deposit* is not required. However, your annuity will be reduced by one-tenth of the amount of deposit due. • For service after September 30, 1982, you must make contributions for your deposit service to count in the calculation of your annuity.

* *The deposit equals the contributions you would have made during the period of service, plus interest.*

If you have military service that you want to have credited in your annuity computation, you may be required to make a military deposit. Please see a Benefits Counselor to discuss the Plan rules on crediting military service.

Benefit Amount

The amount of your basic annuity — whether immediate or deferred — is determined by the following formula:

Retirement Formula

1.5 percent of your highest average salary over three consecutive years ***times*** your first five years of creditable service

PLUS

1.75 percent of your highest average salary over three consecutive years ***times*** your second five years of creditable service

PLUS

2.00 percent of your highest average salary over three consecutive years ***times*** your remaining years of creditable services, beyond 10

Maximum Benefit

Your basic annuity may equal as much as 80 percent of your highest three-year average salary — a level you reach at 41 years and 11 months of service. Your annuity may not be more than this maximum, unless the excess is due to credit for unused sick leave.

Retirement Benefit Example

Suppose you retire after 30 years of creditable service and your highest three-year average salary, as we calculated in the previous example, is $27,000. Apply the formula to determine your immediate annuity if you retire at age 55 or later.

STEP 1. Multiply $27,000 by 1.50 percent. The answer is **$405.**

STEP 2. Multiply $405 (the answer in Step 1) by 5 (your first five years of creditable service). The answer equals **$2,025.**

STEP 3. Multiply $27,000 by 1.75 percent. The answer is **$472.50.**

STEP 4. Multiply $472.50 (the answer in Step 3) by 5 (your second five years of creditable service). The answer equals **$2,362.50.**

STEP 5. Multiply $27,000 by 2.00 percent. The answer is **$540.**

STEP 6. Multiply $540 (the answer in Step 5) by 20 (your remaining years of creditable service, beyond 10). The answer equals **$10,800.**

STEP 7. Add $2,025, $2,362.50, and $10,800 (the answers from Steps 2, 4, and 6). The answer equals **$15,187.50.** This is your basic annuity. To determine your monthly benefit, divide the answer by 12 ($15,187.50 ÷ 12 = $1,266).

Shortcut Method — Basic Annuity Table

The table below shows the basic annuity that the formula produces for each $1 of your highest three-year average salary. This is simply another way to calculate your retirement benefit.

Using the table, we can determine the annuity using the assumptions from our previous example. Once again, let's assume a highest three-year average salary of $27,000 and retirement after 30 years of creditable service. For 30 years and 0 months of service, the table gives the factor .562500. Multiply this factor by your average salary of $27,000. The answer is $15,187.50 of basic annuity — the same answer determined by using the retirement formula.

Years of service	Additional months of service											
	0	1	2	3	4	5	6	7	8	9	10	11
5	.075000	.076458	.077917	.079375	.080833	.082292	.083750	.085208	.086667	.088125	.089583	.091042
6	.092500	.093958	.095417	.096875	.098333	.099792	.101250	.102708	.104167	.105625	.107083	.108542
7	.110000	.111458	.112917	.114375	.115833	.117292	.118750	.120208	.121667	.123125	.124583	.126042
8	.127500	.128958	.130417	.131875	.133333	.134792	.136250	.137708	.139167	.140625	.142083	.143542
9	.145000	.146458	.147917	.149375	.150833	.152292	.153750	.155208	.156667	.158125	.159583	.161042
10	.162500	.164167	.165833	.167500	.169167	.170833	.172500	.174167	.175833	.177500	.179167	.180833
11	.182500	.184167	.185833	.187500	.189167	.190833	.192500	.194167	.195833	.197500	.199167	.200833
12	.202500	.204167	.205833	.207500	.209167	.210833	.212500	.214167	.215833	.217500	.219167	.220833
13	.222500	.224167	.225833	.227500	.229167	.230833	.232500	.234167	.235833	.237500	.239167	.240833
14	.242500	.244167	.245833	.247500	.249167	.250833	.252500	.254167	.255833	.257500	.259167	.260833
15	.262500	.264167	.265833	.267500	.269167	.270833	.272500	.274167	.275833	.277500	.279167	.280833
16	.282500	.284167	.285833	.287500	.289167	.290833	.292500	.294167	.295833	.297500	.299167	.300833
17	.302500	.304167	.305833	.307500	.309167	.310833	.312500	.314167	.315833	.317500	.319167	.320833
18	.322500	.324167	.325833	.327500	.329167	.330833	.332500	.334167	.335833	.337500	.339167	.340833
19	.342500	.344167	.345833	.347500	.349167	.350833	.352500	.354167	.355833	.357500	.359167	.360833
20	.362500	.364167	.365833	.367500	.369167	.370833	.372500	.374167	.375833	.377500	.379167	.380833
21	.382500	.384167	.385833	.387500	.389167	.390833	.392500	.394167	.395833	.397500	.399167	.400833
22	.402500	.404167	.405833	.407500	.409167	.410833	.412500	.414167	.415833	.417500	.419167	.420833
23	.422500	.424167	.425833	.427500	.429167	.430833	.432500	.434167	.435833	.437500	.439167	.440833
24	.442500	.444167	.445833	.447500	.449167	.450833	.452500	.454167	.455833	.457500	.459167	.460833
25	.462500	.464167	.465833	.467500	.469167	.470833	.472500	.474167	.475833	.477500	.479167	.480833
26	.482500	.484167	.485833	.487500	.489167	.490833	.492500	.494167	.495833	.497500	.499167	.500833
27	.502500	.504167	.505833	.507500	.509167	.510833	.512500	.514167	.515833	.517500	.519167	.520833
28	.522500	.524167	.525833	.527500	.529167	.530833	.532500	.534167	.535833	.537500	.539167	.540833
29	.542500	.544167	.545833	.547500	.549167	.550833	.552500	.554167	.555833	.557500	.559167	.560833
30	.562500	.564167	.565833	.567500	.569167	.570833	.572500	.574167	.575833	.577500	.579167	.580833
31	582500	.584167	.585833	.587500	.589167	.590833	.592500	.594167	.595833	.597500	.599167	.600833
32	.602500	.604167	.605833	.607500	.609167	.610833	.612500	.614167	.615833	.617500	.619167	.620833
33	.622500	.624167	.625833	.627500	.629167	.630833	.632500	.634167	.635833	.637500	.639167	.640833
34	.642500	.644167	.645833	.647500	.649167	.650833	.652500	.654167	.655833	.657500	.659167	.660833
35	.662500	.664167	.665833	.667500	.669167	.670833	.672500	.674167	.675833	.677500	.679167	.680833
36	.682500	.684167	.685833	.687500	.689167	.690833	.692500	.694167	.695833	.697500	.699167	.700833
37	.702500	.704167	.705833	.707500	.709167	.710833	.712500	.714167	.715833	.717500	.719167	.720833
38	.722500	.724167	.725833	.727500	.729167	.730833	.732500	.734167	.735833	.737500	.739167	.740833
39	.742500	.744167	.745833	.747500	.749167	.750833	.752500	.754167	.755833	.757500	.759167	.760833
40	.762500	.764167	.765833	.767500	.769167	.770833	.772500	.774167	.775833	.777500	.779167	.780833
41	.782500	.784167	.785833	.787500	.789167	.790833	.792500	.794167	.795833	.797500	.799167	.800000

Please Note: Instead of the factor .800833 for 41 years and 11 months of service, the table gives the factor of .800000. This factor produces the maximum amount of basic annuity permitted under the Plan. Credit for unused sick leave, however, can raise your basic annuity above the 80 percent maximum.

Please Note: Your annuity benefit will be reduced if you elect to receive all or part of your PCO, as described next.

Portable Cash Option

To give you more flexibility in how you receive your benefit, the Plan offers a Portable Cash Option (PCO). Here's how the PCO and traditional formula determine how your benefit is paid to you if you terminate employment before you retire:

- If your PCO account produces the larger benefit and you elect to withdraw the PCO, then the lump sum PCO distribution may be the only benefit payable to you from the Plan, and you may not be entitled to receive a deferred annuity.
- If the traditional formula produces the larger benefit, then you may receive the value of your PCO account as a lump sum. The difference between the value of the traditional formula benefit and the PCO lump sum payment is payable as a *residual annuity*, beginning as early as age 62.

If you terminate employment when you are eligible to retire, you may also elect to receive the value of your PCO account as a lump sum. The rules are similar to those described above, except that you may elect to receive a portion of your PCO — instead of the total value of your PCO — as a lump sum.

Please Note: After your retirement date, you will receive a notice asking you if you would like to receive a lump sum distribution from the Plan. You have 60 days from receiving this notice to elect the PCO lump sum distribution.

If you take the amount in your PCO account when you leave or retire from the Federal Reserve, you may roll it over into the Thrift Plan, an Individual Retirement Account (IRA), or another employer's qualified plan. If you take the PCO as cash, you may be taxed on the amount. Please see the heading ***Taxes*** later in this section for information on the tax penalties associated with taking the PCO as cash.

How The PCO Works

If You Were An Employee Between January 1, 1992 and December 31, 2001

On January 1, 2002, the Federal Reserve established a PCO account for all eligible employees. Your service between January 1, 1992 and December 31, 2001 and your pay for 2001 determined your initial account balance. Your PCO account was credited for your years of service, up to 10 years. PCO accounts for part-time employees were credited based on their part-time service.

To calculate your initial account balance, you received 5 percent of pay (base pay and regular shift differential in 2001) for each year of Federal Reserve employment up to five years. Then, for years 6-10, you received 10 percent of pay. If you had at least 10 years of full-time service between January 1, 1992 and December 31, 2001, your account was credited with 75 percent of your 2001 pay. For example, if you earned $30,000 in 2001, your PCO account was credited with $22,500 ($30,000 x .75).

PCO accounts are credited on a monthly basis and earn interest in 2002 at the 30-Year Treasury Bill rate as of the end of the third quarter of the preceding year. After 10 years of service, accruals to your PCO account end; however, your account continues to earn interest at the stated rate until you withdraw your PCO account balance.

You are 100 percent vested in your PCO account balance after five years of service. You also continue to accrue a traditional pension benefit under the Board Plan formula.

The following chart provides an example of how your initial PCO account balance was determined. Let's assume you have worked at the Federal Reserve for seven years.

Year	2001 Annual Compensation	PCO Account Contribution 5 Percent	10 Percent
1	$30,000	$1,500	
2	30,000	1,500	
3	30,000	1,500	
4	30,000	1,500	
5	30,000	1,500	
6	30,000		$3,000
7	30,000		3,000
Total Initial PCO Amount		$13,500	

In this example, you have an initial PCO account balance of $13,500. Your account will be credited monthly until you reach 10 years of employment. After that, you will continue to earn interest on your PCO account balance until you withdraw it.

You will not receive an accrual when you are on an unpaid leave of absence. Accruals begin again when you return to work and continue until you receive 120 monthly accruals.

If You Started Your Employment After 2001

You begin to accrue a traditional pension benefit under the Retirement Plan's formula, and the Federal Reserve establishes a PCO account in your name. Your years of service and pay determine the amount with which your account is credited, as follows:

- For each of your first 60 months of accruals (generally years 1-5), the Federal Reserve contributes 5 percent of your pay into your account; and
- For each of your next 60 months of accruals (generally years 6-10), the Federal Reserve contributes 10 percent of your pay into your account.

PCO accounts for part-time employees are credited based on their part-time earnings.

Your PCO account will be credited on a monthly basis and will earn interest at a stated rate. After 120 accruals, accruals to your PCO account end; however, your account continues to earn interest at the stated rate until you withdraw your PCO account balance or begin receiving payments from the Board Plan, whichever is earlier. You are not vested in the Board Plan until you reach five years of service.

Let's assume you are a new full-time employee earning $20,000. (For purposes of this example, we'll assume your salary increases each year by 3 percent, but we will not take into account interest your account earns.) You begin to accrue a benefit under the Plan's formula and a PCO account is set up in your name. After five years of service, you are fully vested. Here's how your account will be credited for each of your first 10 years of employment.

YEAR	ANNUAL COMPENSATION	PCO ACCOUNT CONTRIBUTION 5 PERCENT	10 PERCENT
1	$20,000	$1,000	
2	20,600	1,030	
3	21,218	1,061	
4	21,855	1,093	
5	22,510	1,126	
6	23,185		$2,319
7	23,881		2,388
8	24,597		2,460
9	25,335		2,534
10	26,095		2,610
TOTAL INITIAL PCO AMOUNT		$17,621	

In this example, after 10 years of service, you will have a PCO account balance of $17,621. After 10 years of service, accruals to your PCO account end. However, you will continue to earn interest on your PCO account balance until you withdraw it.

Taxes

The lump sum distribution from your PCO account is subject to income taxes, unless you elect to roll it over into the Thrift Plan, an IRA, or another employer's qualified plan. In addition, when you take your distribution, the Federal Reserve is required to withhold 20 percent of the distribution for income taxes. If you are under age 55 when you receive the withdrawal, there also may be a 10 percent early withdrawal tax.

You are encouraged to consult with your own tax advisor regarding the tax consequences of the PCO.

If You Leave Before Retiring

You earn a permanent *vested* right to your benefit when you complete five years of vesting service. If you are vested in your benefits, you will be eligible to receive a pension when you leave the Federal Reserve.

If you have less than five years of vesting service when you end your employment with the Federal Reserve, you will not receive any pension benefits under the Plan.

If You End Your Employment

If you leave the Federal Reserve after you are vested, you may receive a benefit in one of the following ways:

If you leave before you are eligible to retire:	If you retire with an immediate annuity:
• You can take the value of your entire PCO account, as a lump sum (any residual benefit will be paid as a monthly annuity beginning at age 62); or • You can defer receipt of the entire benefit and receive it as a monthly annuity at age 62.	• You can take the value of your entire PCO account, as a lump sum with the rest payable as a monthly benefit; • You can take a portion of the value of your PCO account as a lump sum, with the rest payable as a monthly benefit; or • You can take your entire benefit as an immediate annuity.

Any lump sum you take from the PCO will reduce your future monthly benefits from the Retirement Plan.

Contribution Refunds

Before Five Years Of Service

If you leave before you have at least five years of creditable service, your required and voluntary contributions will be returned to you. This is because you must have at least five years of service to be eligible for an annuity benefit.

When you leave, you'll receive interest on your required and voluntary contributions — as long as you have been employed at the Board for at least one year. The applicable interest rates are shown in the chart below.

If contribution is...	Interest is paid at...
required	the rate of 3 percent per year, compounded annually
voluntary	a variable rate determined by the Secretary of the Treasury, compounded annually

After Five Years Of Service

If you leave after you have at least five years of creditable service, you become eligible to receive your PCO and/or a deferred annuity beginning at age 62, as long as you do not withdraw your required contributions. However, you may apply for your contributions to be returned at any time before your retirement annuity becomes payable. If you do so, you will not receive interest on your required contributions, except for contributions made before the end of 1956. You will, however, receive interest compounded annually at a variable rate determined by the Secretary of the Treasury on your voluntary contributions.

Keep in mind that if you have your required contributions refunded — either before or after five years of creditable service — you give up all your rights to any further benefits under the Board Plan.

If You Become Disabled

If you become totally disabled before you retire and after completing at least five years of civilian service, you are eligible for retirement benefits under the Board Plan. Your disability must:

- Be total and permanent; and
- Make you unable to perform the duties of your job or a job with similar duties.

The amount of your disability retirement annuity is determined in the same way as your basic retirement annuity (refer to the heading ***How Your Benefits Are Calculated***). However, your disability annuity has a special guaranteed minimum amount. This guaranteed minimum is the smaller of the following amounts:

- 40 percent of your highest average salary over three consecutive years; or
- An amount determined under the basic annuity formula by projecting your service to age 60.

You may choose to receive your retirement benefit in one of three payment forms, as described under the heading ***How Benefits Are Paid*** later in this section.

The Plan will not pay benefits if your disability is the result of:

- Willful misconduct; or
- The excessive use of alcohol or drugs during the five-year period before the disability began.

The disability benefits you receive under the Board Plan will offset any benefits you receive under the Long Term Disability Income Plan. See the DISABILITY INSURANCE PLAN section for more information.

How Annuity Benefits Are Paid

Your annuity benefit can be paid as:

- Annuity without survivor benefit;
- Annuity with survivor benefit to your spouse; or
- Annuity with survivor benefit to your designated person.

If you choose a payment option other than the annuity without survivor benefit, your monthly annuity will be reduced. The monthly benefits will be lower because one is paid for the remainder of a single life (yours), while the other two are paid for the remainder of two lives (yours and your spouse's/designated person's).

Annuity Without Survivor Benefit

If you choose an annuity without a survivor benefit, you'll receive a pension benefit each month for as long as you live. All payments end when you die.

This form of annuity gives you the largest monthly payment because it does not provide any survivor benefits. It is normally chosen by a single retiree, but may be chosen by a married retiree with the consent of his or her spouse.

If you elect this method and later marry, you may change to the payment form that provides survivor benefits to your spouse, as long as the change is made within two years of your marriage. If you decide to change, your spouse would be entitled to receive benefits if:

- You die after nine months of marriage or as a result of an accident; or
- Your spouse is a parent of a child born or adopted during your marriage.

However, if you do change to any payment option other than annuity without survivor, your monthly benefit will be reduced so that payments can be made over two lifetimes.

If you are married when you retire and you do not elect to provide a survivor annuity for your spouse (or you elect a payment option that provides less than full survivor benefits), you may add or increase the survivor benefit within 18 months of your date of retirement. However, your monthly benefit will be reduced to allow for the increased survivor benefit.

Annuity With Survivor Benefit To Your Spouse

The annuity with survivor benefit to your spouse pays you monthly benefits for as long as you live. Then, when you die, pension benefits will be paid to your spouse, assuming that he or she survives you, for his or her lifetime (unless your spouse remarries before age 55). If you are married when you retire, you will automatically receive this payment form unless you and your spouse elect another payment option.

Under this payment option, your monthly pension benefit will be reduced so that payments may be made over two lifetimes — yours and your spouse's.

The reduction in your basic monthly annuity will be:

- 2.5 percent of any amount up to $3,600 per year that you designate as the survivor benefit base; and
- 10 percent of the designated base in excess of $3,600.

Your spouse's payments will be equal to 55 percent of the amount you designate as the survivor benefit base. This base can be any portion of your basic monthly annuity.

For example, using your full basic annuity (rounded to $15,187) from our previous example, let's assume you elect an annuity with a survivor benefit for your spouse. Let's also assume that you designate your full basic annuity ($15,187) as your survivor benefit base. To determine what your reduced pension would be, use the formula:

2.5 percent times $3,600 =	**$90**
10 percent times $11,587 =	**+ $1,159**
The amount of reduction =	**$1,249**

During your lifetime, your annuity would be reduced to $13,938 ($15,187 – $1,249). After your death, your spouse would receive an annuity of $8,353 (55 percent of $15,187) over his or her lifetime.

If you elect this form of payment and your marriage ends or your spouse dies before you die, your annuity will be increased to the amount you would have received if the payments were made over one lifetime only. If you later remarry, you may have your payments reduced so that your new spouse may receive a pension after your death.

Annuity With Survivor Benefit To Your Designated Person

This option makes payments in the same way as the annuity with survivor benefit to your spouse — except that survivor benefit payments are made to your designated person. When you die, pension benefits will be paid to your designated person for his or her lifetime, assuming that he or she survives you.

If you choose this payment option, your monthly pension benefit will be reduced so that payments may be made over two lifetimes — yours and your designated person's. The amount of the reduction depends on your designated person's age.

This option is normally chosen by a single retiree, but may be chosen by a married retiree with the spouse's consent. You should note that the person you designate must have an insurable interest. This means that person must be someone who can reasonably expect to receive some kind of financial benefit from the continuation of your life. Generally, a close relative is considered to have an insurable interest. If you choose someone other than a close relative, proof of an insurable interest may be required when you make this election. To elect this method of payment, you must be in good health. The Board will arrange a medical exam at your expense.

Payments to the person you designate as having an insurable interest are equal to 55 percent of the reduced annuity you receive. Remember, because payments are made over two lifetimes, your monthly payment will be reduced.

Use the chart below to determine the reduced benefit you will receive.

If, compared to you, the named person having an insurable interest is…	Then your reduced annuity as a percent of your basic annuity is…
older, same age, or less than 5 years younger	90 percent
at least 5, but less than 10 years younger	85 percent
at least 10, but less than 15 years younger	80 percent
at least 15, but less than 20 years younger	75 percent
at least 20, but less than 25 years younger	70 percent
at least 25, but less than 30 years younger	65 percent
30 or more years younger	60 percent

Suppose you retire with only one living relative — a sister who is four years younger than you. You decide to elect an annuity with a survivor benefit and name her as your designated person. Using our previous example, your full basic annuity is $15,187. Since your sister is four years younger, your annuity is reduced to 90 percent of $15,187, or $13,668. After your death, your surviving sister receives a survivor annuity from the Board Plan of $7,517 (55 percent of $13,668).

If you marry after electing this payment option, you may convert to an annuity with survivor benefits to your spouse within two years after your marriage.

Alternative Form Of Annuity

The Alternative Form of Annuity, or AFA, provides a lump sum amount equal to your contributions to the Plan and an annuity that is reduced based on the amount of lump sum and your age. Since 1993, the AFA option is available only to those retiring with a life-threatening illness. See a Benefits Counselor for more details on the AFA election.

Cost-Of-Living Adjustments

To help you and your survivors keep pace with inflation, the Board Plan pays an annual cost–of–living adjustment (COLA) to all retired participants and their survivors. COLA increases are based on percentage changes in the Consumer Price Index.

For example, suppose your annuity equals $15,187 and the COLA is 3 percent. Your annuity would increase by 3 percent, making your new annuity payment $15,643. If you've been retired for less than one year when the COLA is effective, your annuity adjustment would be prorated accordingly.

COLA adjustments are paid only on your monthly annuity payments, so any benefits distributed in your PCO are not subject to the COLA.

Applying For Benefits

You or your beneficiary must apply for benefits by using *Benefits Express* (1-877-FRS-CALL) or *Benefits Express On-Line* (http://resources.hewitt.com/benefitsexpressoeb). You should start the process 30 to 60 days before the date you want benefits to begin, to allow time for calculations and forms processing. If you have questions about applying for benefits, you may speak to a *Benefits Express* representative or a Board Benefits Counselor.

Making Changes To Your Payment Options

The types of changes and the circumstances in which you may make those changes are shown in the chart below.

Under the…	You may…
annuity without survivor benefit option	• change to a survivor annuity option if you later marry and make the change within two years of your marriage; or • add or increase the survivor benefit within 18 months of your retirement date if you are married when you elect this payment option.
annuity with survivor benefit to spouse option	• change to an annuity without survivor option if your marriage ends or your spouse dies before you die; and • change back to the annuity with survivor benefit to spouse option if you later remarry and make the change within two years of your marriage.
annuity with survivor benefit to designated person option	• change to the annuity with survivor benefit to spouse option if you later marry and make the change within two years of your marriage.

Death Benefits

In certain circumstances, the Board Plan pays death benefits if you die. These circumstances are described next.

If You Die During Active Service

The Plan pays a death benefit to your beneficiary or estate if you die while you are:

- Actively at work;
- Totally disabled under the Long Term Disability Income Plan (but not retired); or
- On an authorized leave of absence.

The chart below shows the types of benefits that are payable and the conditions for payment.

Type of payment	Eligibility	Amount of payment
Lump sum payment to your beneficiary	Your designated beneficiary may receive a lump sum payment if: • You have less than 18 months of service; • You die after separation from service and before a deferred annuity begins; or • You are otherwise not survived by a spouse or child who qualifies for survivor benefits.	This payment will be equal to your contributions to the Plan, or, if you are vested, the value of your PCO account, if greater.
Survivor annuity to your surviving spouse	Your surviving spouse may receive an annuity if: • You were married for at least nine months before you died; or • Your spouse is the parent of a child born during your marriage; and • You have at least 18 months of service.	Your surviving spouse will receive at least 55 percent of the basic annuity that you would have received if you had retired on the day of your death. Your surviving spouse's annuity is guaranteed to be at least 55 percent of the lesser of the following amounts: • 40 percent of your highest three-year average salary; or • The amount determined under the basic annuity formula by projecting your service to age 60. This annuity is payable to your spouse for life unless he or she remarries before age 55.
Survivor annuity to your surviving children	Your surviving children will receive an annuity if they are unmarried and: • Under age 18; • Between the ages of 18 and 21 and full-time students at an accredited educational institution; or • Any age if they are incapable of supporting themselves due to a mental or physical disability which began before age 18.	The amount of the annuity, which is periodically changed for cost–of–living adjustments, depends on: • The number of eligible children; and • Whether there is a surviving parent. This survivor benefit is paid to your children in addition to any annuity your surviving spouse may receive from the Board Plan. Each child will continue to receive an annuity for as long as the child remains eligible.

If You Die During Retirement

If you die after you've retired, your spouse — or other person having an insurable interest — may receive a benefit from the Plan, depending on the payment form you elected. Refer to the heading ***How Benefits Are Paid*** earlier in this section.

Your eligible children will receive death benefits as explained earlier, regardless of the payment form you elected.

Your Beneficiary

If you die while employed at the Board and have no spouse or children eligible to receive survivor benefits, your beneficiary will receive a lump sum payment equal to your required and voluntary contributions or the PCO benefit, if payable. You may change your beneficiary(ies) at any time through *Benefits Express* or *Benefits Express On-Line*.

If you die and have not designated a beneficiary or don't have a valid beneficiary, benefits will be paid to your estate.

Other Information About The Board Plan

This section contains other important information about the Board Plan.

IRS Limits On Pension Benefits

From time to time, the Internal Revenue Service (IRS) establishes certain maximum limits on pension payments. They affect only those employees with very high pension benefits. Also, the IRS limits the compensation the Board Plan can use to calculate benefits.

- The compensation limits for 2002 for employees who began participation in the Thrift Plan after 1995 is $200,000. This limit is indexed for the CPI and increases in multiples of $5,000; and
- The compensation limits for 2002 for employees who began participation in the Thrift Plan before 1996 is $295,000. This limit is indexed for the CPI and increases in multiples of $5,000.

The Federal Reserve has established a nonqualified Retirement Benefit Equalization Plan (BEP). Together, the Board Plan and BEP will pay retirees the amount that they would have received from the Board Plan if not for IRS compensation and pension limits.

Other Limits

The Plan also provides that your basic annuity can't be more than 80 percent of your high three-year average salary, except that service added for unused sick leave can increase your annuity above 80 percent.

Assignment Of Benefits

Except as required by applicable law (such as payment of a federal income tax levy), benefits provided under the Plan are not subject to sale, assignment, alienation, attachment, garnishment, pledge, bankruptcy, or any other form of transfer.

However, your Plan benefit can become subject to a property or other financial settlement in case of a divorce. The court may then issue a Qualified Domestic Relations Order (QDRO), which could award a portion of your benefit to someone other than you or your designated beneficiary. A QDRO is a court order related to divorce or separation which provides child support, alimony, or marital property rights to your former spouse, your child, or another dependent. Contact the Management Division, Benefits Section if this situation applies to you, and they can arrange to send you or your attorney a model form of a QDRO.

Pension Benefit Guaranty Corporation

The Board Plan is not covered by the Employee Retirement Income Security Act of 1974 (ERISA), so the Pension Benefit Guaranty Corporation (PBGC) does not insure your benefits under the Plan.

If The Plan Ends

If the Board Plan is modified, suspended, or terminated, you have a permanent right to any benefits you have accrued up to that time.

For More Information

Refer to the PLAN ADMINISTRATION section for other important information about the Board Plan.

BANK RETIREMENT PLAN

The Retirement Plan for Employees of the Federal Reserve System (the Retirement Plan or the Plan) offers a foundation for your retirement income. Along with your Thrift Plan savings and Social Security benefits, the pension you receive from your Retirement Plan provides you with a dependable source of income throughout your retirement years.

Certain employees of the Board of Governors are not covered under Social Security. These employees participate in a separate benefit structure, commonly referred to as the Board Benefit Structure.

With the Retirement Plan, you have an opportunity to:

- Earn income for your retirement based on your compensation and years of service with the Federal Reserve;
- Receive a deferred benefit from the Plan even if you leave the Federal Reserve before you are eligible to receive an immediate benefit;
- Choose to receive your benefit in the form of an annuity or in a lump sum that you can take with you if you leave or retire from the Federal Reserve;
- Choose the payment start date for your annuity, beginning as early as age 50, provided you have at least five years of service and didn't receive your entire benefit as a lump sum; and
- Choose the way in which your annuity is paid to you.

The Plan also pays a death benefit to your beneficiary if you die while you are an employee.

Over the years, the Plan has been improved and updated. The effective date of the most recent amendments to the Plan, as described in this handbook, is January 1, 2002.

Who Is Eligible

For eligibility information, refer to the INTRODUCTION section.

Benefits Express: The Retirement Plan's Interactive Voice Response System

You may access Plan benefit information by phone with *Benefits Express. Benefits Express,* an automated telephone system, provides you with around-the-clock access to information about your Retirement Plan benefit, and assistance with a variety of issues.

With *Benefits Express,* you can:

- Access your Plan benefit information toll-free, 24 hours a day, Monday through Saturday, and after 1 pm Eastern Time on Sundays by calling 1-877-FRS-CALL (1-877-377-2255); and
- Speak with a Benefits Specialist at the *Benefits Express Center,* Monday through Friday, from 8 am to 8 pm Eastern Time (call the toll-free number listed above).

With *Benefits Express,* you can access information about your PCO account and get estimates of your future Retirement Plan benefit.

With *Benefits Express,* you can access information about your Portable Cash Option (PCO) account and get estimates of your future Retirement Plan benefit. For detailed information about the PCO feature, please see the heading ***Portable Cash Option*** later in this section.

Benefits Express On-Line: The Retirement Plan's Website

Benefits Express On-Line, the Retirement Plan's website, provides you with around-the-clock access to information about your Retirement Plan benefit, and allows you to make a variety of transactions. With *Benefits Express On-Line,* you can access your information from home or work, 24 hours a day, Monday through Saturday and after 1 pm on Sunday. The Internet address is http://resources.hewitt.com/benefitsexpressoeb.

Using *Benefits Express On-Line,* you can access information about your PCO account, model your retirement benefit using different assumptions (such as years of service and age), view and make changes to your beneficiaries, and view your recent transactions. When you're ready to retire, you can review the Plan's payment options, model payment scenarios, and select a payment option. After you retire, you can use the on-line system to update your personal information (such as your address, direct deposit instructions, and federal and state tax withholding information).

How The Plan Works

If you are eligible, you are automatically enrolled in the Retirement Plan as soon as you begin working for the Federal Reserve. If you are eligible and meet the vesting requirements, the Retirement Plan will pay you a pension benefit in the form of an annuity, a lump sum, or a combination of the two.

The Plan uses two different formulas to calculate your benefit — a traditional formula based on your final average pay, and the Portable Cash Option (PCO) formula based on your current pay. In determining your benefit, the Plan will use the formula that produces the larger benefit. The following explains how an eligible vested employee might receive his/her pension:

- As a lump sum distribution from the Plan, up to the value of his/her PCO;
- As a monthly stream of payments (annuity); or
- As both a lump sum payment (up to the value of his/her PCO) and as an annuity.

Please Note: Your traditional pension benefit will be reduced by the amount of the lump sum payment you take. For more information about the PCO, please see the heading ***Portable Cash Option*** later in this section.

If you don't elect a lump sum distribution, you can begin receiving your monthly annuity at age 50.

You are encouraged to consult with your own tax advisor regarding the tax consequences of the PCO.

Coverage Cost

Retirement Plan participants do not make contributions to the Retirement Plan, but are subject to Social Security tax withholding on their salary up to the maximum Social Security taxable wage base. Board Benefit Structure participants make a contribution to the Retirement Plan, but such participants' wages are not subject to Social Security tax withholding requirements

Vesting

You are vested in your pension benefit when:

- You reach age 65; or
- You complete five years of vesting service.

Vesting is your permanent right to a pension benefit. Once you are vested, you are guaranteed a pension benefit from the Federal Reserve — even if you leave before reaching retirement age. If you leave before you are vested, however, you won't be eligible to receive a benefit from the Plan.

If you have a break in your service or leave the Federal Reserve, your service credit may be affected. Please see the heading ***If You Leave Before Retiring*** later in this section.

How Your Benefits Are Calculated

Traditional Formula

Your Retirement Plan benefits are based on:

- Your final average salary;
- Your creditable service; and
- The Social Security Integration Level.

These terms are explained next.

Final Average Salary

Your final average salary is your highest average annual compensation during any 60 consecutive months (five years) before you retire. It includes:

- Base pay;
- Any regularly paid shift differential;
- Overtime and any odd-hour shift differential earned after 1989; and
- Any salary:
  - Deferred under the Thrift Plan;
  - Contributed to a cafeteria plan under Section 125 of the Internal Revenue Code; or
  - Reduced under Section 132 of the Internal Revenue Code for qualified transportation expenses.

After 2001, your final average salary also includes any of the following types of compensation earned after 2001:

- Most forms of variable pay, including cash and incentive awards;
- Lump sum merit increases;
- On-call/beeper pay;
- Premium pay;
- Production incentives; and
- Special projects additional pay.

Final average salary does *not* include other forms of deferred compensation or contributions by the Employer under this Retirement Plan or any other Employer benefit plan. Other forms of special compensation are also excluded. In addition, unpaid leaves of absence are not factored into the 60-month average for final average salaries.

Creditable Service

Creditable service is also used to determine your pension benefit. It includes all of your covered service with:

- The Board; or
- Another Reserve Bank.

You may also receive credit for the following service:

- Approved leaves of absence, up to (but not usually beyond) 12 months;
- Employment with the federal government under the Civil Service Retirement System or the Federal Employees Retirement System — as long as you renounce your service under those Plans;
- Certain periods of military and public service; and
- Periods during which you are totally disabled (as defined in the Long Term Disability Income Plan).

The Plan calculates your creditable service from your most recent employment to its termination, and adjusts it to include prior service. Please see the heading ***If You Leave Before Retiring*** later in this section.

Please contact a Benefits Counselor to discuss whether any prior service you have may be creditable.

Part-Time Work

After 1976, any year of creditable service for part-time work is reduced to the equivalent portion of the year worked (a partial month is rounded up to the next higher month). The amount of salary you received is adjusted to its annual full-time equivalent. These adjustments are made only for the purposes of the pension calculation.

For example, suppose the standard work week is 40 hours and you work 20 hours each week and receive $10 per hour. When you retire, you will receive six months of creditable service for each year you have worked, since 20 hours a week is half of the standard work week of 40 hours. However, your salary will be adjusted to its annual equivalent of $20,800 ($10 *times* 40 hours per week *times* 52 weeks *equals* $20,800 per year).

Please see your Human Resources Department for information on how service credit for part-time work before 1977 is calculated.

Social Security Integration Level

The Social Security Integration Level is the average of the Social Security wage bases (the maximum amount on which you pay Social Security taxes) for the 35 years before the date of your retirement. For example, if an employee retires in 2002, the Social Security Integration Level amount is $37,212. These amounts change each year in accordance with federal regulation. Contact your Human Resources Department for more information.

If You Become Disabled

If you become totally disabled (as defined in the Long Term Disability Income Plan), you'll continue to accrue service and PCO credits under the Retirement Plan. You may elect to begin receiving benefits from the Retirement Plan once you reach age 50, if you have at least five years of service. However, you are not required to begin receiving Retirement Plan benefits until you are eligible to receive an unreduced pension or five years after you become disabled, if you became disabled after age 60.

In calculating your benefits at retirement, the annual rate of your salary when your disability began will be assumed to be the annual salary in effect for your period of total disability.

Pension benefits will not be paid as long as you are receiving disability benefits from the Long Term Disability Income Plan. See the DISABILITY INSURANCE section for more information.

Traditional Formula Benefit

The factors explained earlier are used to determine your normal retirement benefit.

Pension Formula

[1.3 percent ***times*** your final average salary up to the

Social Security Integration Level

PLUS

1.8 percent ***times*** your final average salary in excess of the

Social Security Integration Level (if any)]

TIMES

your years of creditable service

Maximum Payment

Your normal retirement pension benefit may not be more than 80 percent of your final average salary.

Minimum Payment

If the total present value of your pension is $5,000 or less, you'll receive a lump sum payment.

Traditional Formula Retirement Benefit Examples

If Your Final Average Salary Is Less Than The Social Security Integration Level

Suppose your final average salary is $30,000 and you have 20 years of creditable service when you retire at age 65 in 2002. The Integration Level, based on your retirement date, is $37,212. Apply the formula to determine your annual normal retirement benefit.

STEP 1. Determine if your final average salary ($30,000) is more than the Social Security Integration Level ($37,212). The answer is **no.**

STEP 2. Multiply .013 (1.3 percent) by $30,000 (your final average salary). The answer equals **$390.**

STEP 3. Multiply $390 (the answer from Step 2) by 20 (your years of creditable service). The answer equals **$7,800.** This is your annual normal retirement benefit.

Remember, in addition to your Plan benefit, you may also be eligible to receive a Social Security benefit starting at age 62, depending on your income level.

If Your Final Average Salary Is More Than The Social Security Integration Level

Suppose your final average salary is $40,000 and you have 30 years of creditable service when you retire at age 65 in 2002. The Integration Level, based on your retirement date, is $37,212. Apply the formula to determine your annual normal retirement benefit.

STEP 1.	Determine if your final average salary ($40,000) is more than the Social Security Integration Level ($37,212). The answer is **yes.**
STEP 2.	Multiply .013 (1.3%) by $37,212 (your final average salary up to the Social Security Integration Level). The answer equals **$484.**
STEP 3.	Multiply .018 (1.8%) by $2,788 (your final average salary in excess of the Social Security Integration Level). The answer equals **$50.**
STEP 4.	Add $484 and $50 (the answers from Steps 2 and 3). The answer equals **$534.**
STEP 5.	Multiply $534 (the answer from Step 4) by 30 (your years of creditable service). The answer equals **$16,020.** This is your annual normal retirement benefit.

Remember, in addition to your Plan benefit, you may also be eligible to receive a Social Security benefit starting at age 62, depending on your income level.

PORTABLE CASH OPTION

To give you more flexibility and to allow you to take a portion of your benefit with you if you leave the Federal Reserve before age 50, the Plan offers a Portable Cash Option (PCO). Here's how the PCO and traditional formula determine how your benefit is paid to you:

- If you terminate employment before age 50, you may receive the total value of your PCO account in a lump sum payment.
- If your PCO account produces the larger benefit, then the lump sum PCO distribution may be the only benefit payable to you from the Plan, and you may not be entitled to receive a deferred annuity.
- If the traditional formula produces the larger benefit, then you may receive the value of your PCO account as a lump sum. The difference between the value of the traditional formula benefit and the PCO lump sum payment is payable as a *residual annuity*, beginning as early as age 50. However, if the present value of the residual annuity is $25,000 or less, then it is also paid immediately as a lump sum. It is not an additional payment, but another way to receive your existing benefit.

If you terminate employment at age 50 or later, you may also elect to receive the value of your PCO account as a lump sum. The rules are similar to those that apply to people under age 50, except that you may elect to receive a portion of your PCO — instead of the total value of your PCO — as a lump sum.

Please Note: After you notify your Employer of your retirement date, you will receive a notice asking you if you would like to receive a lump sum distribution from the Plan. You have 60 days from receiving this notice to elect the PCO lump sum distribution.

If you take the amount in your PCO account when you leave or retire from the Federal Reserve, you may roll it over into the Thrift Plan, an Individual Retirement Account (IRA), or another employer's qualified plan. If you take the PCO as cash, you may be taxed on the amount. Please see the heading ***Taxes*** later in this section for information on the tax penalties associated with taking the PCO as cash.

How The PCO Works

If You Were An Employee Between January 1, 1992 and December 31, 2001

On January 1, 2002, the Federal Reserve established a PCO account for all eligible employees. Your service between January 1, 1992 and December 31, 2001 and your pay for 2001 determined your initial account balance. Your PCO account was credited for your years of service, up to 10 years. PCO accounts for part-time employees were credited based on their part-time service.

To calculate your initial account balance, you received 5 percent of pay (base pay, shift differential, and overtime earned in 2001) for each year of Federal Reserve employment up to five years. Then, for years 6-10, you received 10 percent of pay. If you had at least 10 years of full-time service between January 1, 1992 and December 31, 2001, your account was credited with 75 percent of your 2001 pay. For example, if you earned $30,000 in 2001, your PCO account was credited with $22,500 ($30,000 x .75).

PCO accounts are credited on a monthly basis and earn interest at the 30-Year Treasury Bill rate as of the end of the third quarter of the previous year for 2002. After 10 years of service, accruals to your PCO account end; however, your account continues to earn interest at the stated rate until you withdraw your PCO account balance.

You are 100 percent vested in your PCO account balance after five years of service, the same as the Retirement Plan. You also continue to accrue a traditional pension benefit under the Retirement Plan's formula.

The following chart provides an example of how your initial PCO account balance was determined. Let's assume you have worked at the Federal Reserve for seven years.

YEAR	2001 ANNUAL COMPENSATION	PCO ACCOUNT CONTRIBUTION 5 PERCENT	PCO ACCOUNT CONTRIBUTION 10 PERCENT
1	$30,000	$1,500	
2	30,000	1,500	
3	30,000	1,500	
4	30,000	1,500	
5	30,000	1,500	
6	30,000		$3,000
7	30,000		3,000
TOTAL INITIAL PCO AMOUNT		$13,500	

In this example, you have an initial PCO account balance of $13,500. Your account will be credited monthly until you reach 10 years of employment. After that, you will continue to earn interest on your PCO account balance until you withdraw it.

You will not receive an accrual when you are on an unpaid leave of absence. Accruals begin again when you return to work and continue until you receive 120 monthly accruals.

If You Started Your Employment After January 1, 2002

On your first day of employment, you are enrolled in the Retirement Plan. You begin to accrue a traditional pension benefit under the Retirement Plan's formula, and the Federal Reserve establishes a PCO account in your name. Your years of service and pay determine the amount with which your account is credited, as follows:

- For each of your first 60 months of accruals (generally years 1-5), the Federal Reserve contributes 5 percent of your pay into your account; and
- For each of your next 60 months of accruals (generally years 6-10), the Federal Reserve contributes 10 percent of your pay into your account.

PCO accounts for part-time employees are credited based on their part-time earnings.

Your PCO account will be credited on a monthly basis and will earn interest at a stated rate. After 120 accruals, accruals to your PCO account end; however, your account continues to earn interest at the stated rate until you withdraw your PCO account balance or begin receiving payments from the Retirement Plan, whichever is earlier. You are not vested in the Retirement Plan until you reach five years of service or age 65, whichever is earlier.

You are 100 percent vested in your PCO account balance after five years of service or reach age 65, the same as the Retirement Plan.

Let's assume you are a new full-time employee earning $20,000. (For purposes of this example, we'll assume your salary increases each year by 3 percent, but we will not take into account interest your account earns.) You begin to accrue a benefit under the Plan's formula and a PCO account is set up in your name. After five years of service, you are fully vested in your Retirement Plan benefit. Here's how your account will be credited for each of your first 10 years of employment.

Year	Annual compensation	PCO account contribution	
		5 percent	10 percent
1	$20,000	$1,000	
2	20,600	1,030	
3	21,218	1,061	
4	21,855	1,093	
5	22,510	1,126	
6	23,185		$2,319
7	23,881		2,388
8	24,597		2,460
9	25,335		2,534
10	26,095		2,610
TOTAL		$17,621	

In this example, after 10 years of service, you will have a PCO account balance of $17,621. After 10 years of service, accruals to your PCO account end. However, you will continue to earn interest on your PCO account balance until you withdraw it.

Taxes

The lump sum distribution from your PCO account is subject to income taxes, unless you elect to roll it over into the Thrift Plan, an IRA, or another employer's qualified plan. In addition, when you take your distribution, the Federal Reserve is required to withhold 20 percent of the distribution for income taxes. If you are under age 55 when you receive the withdrawal, there also may be a 10 percent early withdrawal tax.

You are encouraged to consult with your own tax advisor regarding the tax consequences of the PCO.

If You Leave Before Retiring

You earn a permanent *vested* right to your benefit when you complete five years of vesting service. If you are vested in your benefits, you will be eligible to receive a pension when you leave the Federal Reserve.

If you have less than five years of vesting service when you end your employment with the Federal Reserve, you will not receive any pension benefits under the Plan.

Breaks In Service

If you leave the Federal Reserve before you are vested in your pension benefit, you forfeit the service you had previously earned. If you are rehired by your Employer or another Federal Reserve Employer, your forfeited service will be restored immediately. However, your PCO balance is not restored and you will begin receiving PCO accruals for another 120 months.

If You End Your Employment

If you leave the Federal Reserve after you are vested, you may receive a benefit in one of the following ways:

If you leave before age 50	If you leave at age 50 or older
• You can take the value of your entire PCO account as a lump sum; or • You can defer receipt of the entire benefit and receive it as a monthly benefit at retirement age.	• You can take the value of your entire PCO account as a lump sum; • You can take a portion of the value of your PCO account as a lump sum, with the rest payable as a monthly benefit at retirement age; • You can take your entire benefit as an immediate annuity; or • You can defer receipt of the entire benefit and receive it as a monthly benefit at retirement age.

Any lump sum you take from the PCO will reduce your future monthly benefits from the Retirement Plan.

If You Are Rehired After You Retire

If you decide to return to work for a Federal Reserve Employer after you have retired and are receiving Retirement Plan payments, you may continue to receive those payments as long as you waive your right to additional creditable service as a rehired retiree. By waiving this right, you will also be treated as a retiree for purposes of the Thrift Plan, Long Term Disability Plan, and Life and Survivor Income Plan.

If you don't waive your right to additional creditable service, your Retirement Plan payments will be suspended until you retire again. Upon your subsequent retirement, your pension will be recalculated based on all your creditable service. Your recalculated pension will include an actuarial offset for any payments you may have received from the Retirement Plan previously, but in no event will the recalculated pension be less than what you were receiving before you were rehired.

When You May Retire

Depending on your age and length of service, you may choose:

- Normal retirement;
- Early retirement; or
- Deferred retirement.

Normal Retirement

You may retire at or after you reach age 65 (normal retirement age) to receive a normal retirement pension. For an example of how your normal retirement pension is calculated, see the heading ***Traditional Formula Retirement Benefit Examples*** earlier in this section.

Early Retirement

You may elect to retire early on the first of any month on or after you reach age 50, if you have completed at least five years of vesting service. Early retirement benefits may begin on the last day of the month after you retire.

Early retirement benefits are less than normal retirement benefits. Because benefit payments begin before your normal retirement age, the Plan adjusts your benefit payments to allow them to be paid over a longer period of time.

Early Retirement Benefits

If you retire early, your benefit will be calculated using the same formula as for normal retirement, except that it will be reduced. Use the chart on the next page to determine the percentage of the benefit you will receive. The chart is for illustrative purposes only.

To use the chart, follow these steps:

Step 1. Find your age when payments will begin in the far left column.

Step 2. Find the top of the column containing the number which equals your age at retirement *plus* your years of vesting service.

Step 3. Follow the row across from the box containing your age when payments will begin to the column from Step 2. The number in the box where they meet is the percentage of your normal retirement benefit you will receive if you retire early.

Age when payments begin	Total of age at retirement plus years (at least five) of vesting service											With 5 years of service
	90	88	86	84	82	80	76	72	68	64	60	
65	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
64	100%	99.6%	99.2%	98.8%	98.4%	98%	96%	94%	--	--	--	92.5%
62	100%	98.8%	97.6%	96.4%	95.2%	94%	89.5%	85%	80.5%	--	--	79.4%
60	100%	98%	96%	94%	92%	90%	84%	78%	72%	--	--	67.5%
58	92%	90%	88%	86%	84%	82%	77%	72%	67%	62%	--	60.8%
56	84%	82%	80%	78%	76%	74%	69.7%	65.4%	61.1%	56.9%	--	53.6%
54	76%	74%	72%	70%	68%	66%	62.5%	59%	55.5%	52%	48.5%	47.6%
52	--	--	64%	62%	60%	58%	55.3%	52.7%	50%	47.3%	44.7%	42.7%
50	--	--	--	--	52%	50%	48%	46%	44%	42%	40%	37.5%

For example, if you're age 58 with 26 years of service, find 58 in the far left column. Assume your benefits will begin at the age when you retire. Then, add 58 (your age when you retire) to 26 (your years of service). The answer (84) indicates which column to use to find the reduction percentage. If you follow the row across from 58 to the column down from 84, you will find that your early retirement benefit is 86 percent of your normal retirement benefit.

Early Retirement Benefit Example

Suppose you retire from the Federal Reserve in 2002 at age 58 after 26 years of creditable service, and you choose an immediate payment of your early retirement pension. Also assume that your final average salary is $40,000. The Social Security Integration Level, based on your retirement date, is $37,212. Calculate your early retirement pension as follows, using the normal pension formula and the chart on the previous page.

Step 1. Determine if your final average salary ($40,000) is more than the Social Security Integration Level ($37,212). The answer is **yes.**

Step 2. Multiply .013 (1.3 percent) by $37,212 (your final average salary up to the Social Security Integration Level). The answer equals **$484.**

Step 3. Multiply .018 (1.8 percent) by $2,788 (your final average salary in excess of the Social Security Integration Level). The answer equals **$50.**

Step 4. Add $484 and $50 (the answers from Steps 2 and 3). The answer equals **$534.**

Step 5. Multiply $534 (the answer from Step 4) by 26 (your years of creditable service). The answer equals **$13,884.** This is your annual normal retirement benefit.

Step 6. Multiply $13,884 (the answer from Step 5) by .86 (the percentage of normal pension payable at age 58 with age plus service equaling 84). The answer equals **$11,940**. This is your annual early retirement benefit.

You would not receive a Social Security benefit at age 58, since Social Security benefits may not, by law, begin until you reach age 62.

You may also defer receiving your early retirement pension. Pension payments must begin, however, by April 1 of the year following the year in which you reach age 70½ or the year in which you retire, whichever is later. Contact your personal financial advisor for information on how deferring your early retirement benefit may affect you.

Deferred Retirement

If you are vested in your benefits, you will be eligible to receive a pension, regardless of your age when you leave the Federal Reserve. At age 50, you are eligible to receive an immediate monthly benefit from the Federal Reserve. You earn a permanent *vested* right to your benefit when you complete five years of vesting service.

If you have at least five years of vesting service when you end your employment, you will be eligible to receive the benefit you had earned through your date of termination. For normal retirement, you may start receiving this benefit on the first of the month after you reach age 65.

You may choose to start receiving your benefits as soon as you reach age 50 instead of waiting until you reach age 65. However, your benefit will be adjusted in the same way as an early retirement benefit.

How Benefits Are Paid

The Plan pays your pension benefit to you in monthly installments at the end of the month. If the present value of your pension is $5,000 or less, however, you will receive your benefit as a lump sum payment.

Normal Form Of Benefit

The normal form of benefit paid by the Retirement Plan is based on your marital status. Unless you elect a different option, you will receive your pension in one of the following forms:

- If you are single, you will receive a single life pension; or
- If you are married, you will receive a 50 percent survivorship pension with your spouse as beneficiary. If you are married and would like to receive your pension in a form other than the normal form of benefit, you will need to receive written spousal consent for that election.

The values of these two options are actuarially equivalent. They are paid differently because one is paid for the remainder of a single life (yours), while the other is paid for the remainder of two lives (yours and your designated beneficiary's).

In some cases, you may also be eligible for a special (subsidized) survivorship option.

If you left the Federal Reserve and took any or all of your PCO account balance, this will affect any eventual pension benefit you may be eligible to receive.

Single Life Option

If you choose the single life payment option, you'll receive a pension benefit each month for as long as you live. All payments end when you die.

Survivorship Option

The survivorship payment option pays you monthly benefits for as long as you live. When you die, however, pension benefits continue to be paid to your designated beneficiary, assuming your beneficiary survives you. You must receive written spousal consent before designating a beneficiary other than your spouse if you are married.

If you choose the survivorship option, your monthly pension benefit will be reduced so that payments may be made over two lifetimes — yours and your beneficiary's. The amount of the reduction depends on your age, your beneficiary's age, when you begin receiving payments, and the level of survivor benefit you elect.

If you choose a survivorship option and your beneficiary dies before you, your reduced payment under the survivorship option will be increased to the amount you would have received under the single life option. You must notify *Benefits Express* of your beneficiary's death for your payment to increase. If *Benefits Express* is notified within 90 days of the death, the increase will be effective the month after the death, otherwise the increase will be effective the month following notification.

If you meet certain criteria, you may be eligible for the subsidized survivorship option, in which the reduction in your pension benefit is less than the reduction under the non-subsidized option. Please see the heading ***Subsidized Survivorship*** next or contact your Human Resources Department for more information.

When you specify your Plan payment beginning date, you choose the amount your surviving beneficiary will receive after you die. You may choose:

- 50 percent (spousal consent not required if spouse is named as beneficiary);
- 75 percent (spousal consent required); or
- 100 percent (spousal consent required).

You may choose or revoke a survivorship option any time before the last day of the month in which pension payments begin. Please see the heading ***Making Changes To Your Payment Options*** later in this section for more information.

Subsidized Survivorship

You may receive the subsidized survivorship option if:

- You choose to provide your surviving spouse, parent, brother, sister, son, or daughter with a survivorship of at least 50 percent of the converted pension payable to you over your lifetime; *and*
- You are at least 60 years old at retirement; *or*
- Your age plus years of vesting service equal at least 90 at retirement.

As explained above, under the regular survivorship option, your monthly pension benefit is reduced so that payments may be made over two lifetimes. However, under the subsidized survivorship option, the amount of the reduction is less than the reduction under the regular survivorship option. Your single life pension is actuarially reduced at *half* the regular rate for the first 50 percent of the survivorship. The true rate is used to reduce the portion of the survivorship over 50 percent, if any.

Optional Payment Features

Both of the benefit payment options described earlier — single life and survivorship — may be modified by one or more of the following features:

- Guaranteed payment (spousal consent required);
- Lump sum payment (spousal consent required); or
- Level income payment (spousal consent not required).

The benefit amount may be reduced at the regular actuarial rate to allow for the optional modification you choose. You may choose or revoke an optional payment feature up to the day before the last day of the month in which pension payments begin.

Guaranteed Payment

You may choose to have your pension payments guaranteed for a certain period of time. The available guaranteed payment options include:

- Either five or 10 years for a single life pension benefit; or
- Five years for a survivorship pension benefit.

With the *single life pension benefit*, if you die before receiving the five or 10 years of payments, your designated beneficiary will receive any remaining payments. If you live beyond the five- or 10-year guaranteed period, no payments are made after you die.

With a *survivorship pension benefit*, if you die before receiving the five years of payments, your designated beneficiary will continue to receive the same level of payments you were receiving for the remainder of the period. After that, your designated beneficiary's benefit will be paid in accordance with the survivorship benefit.

Lump Sum Payment

You may provide for a lump sum payment of $1,000 or more in $100 increments to your designated beneficiary from your pension benefit, payable after you die.

Level Income Payment

If you retire early and start receiving benefits before you reach age 62, you may choose this payment feature. Under this option, you receive larger Plan benefit payments before age 62. When you reach age 62 and are eligible to receive Social Security benefits (the earliest age at which your Social Security benefits may begin), your Plan benefit is reduced. Plan benefits will be reduced even if you decide not to start receiving Social Security benefits. The goal of this option is to provide you with a level retirement income amount, both before *and* after your Social Security payments begin at age 62.

Applying For Benefits

To receive benefits from the Retirement Plan, you must visit *Benefits Express On-Line* or call the *Benefits Express Center* at least 30 days (but not more than 90 days) before you wish to begin receiving payments. At this time, you will select the payment option you want and when you want your payments to begin. You must sign and return all paperwork to the *Benefits Express Center* by the 10th of the month in which payments are to begin.

Making Changes To Your Payment Options

Payment option elections may be changed up to the day before you're to begin receiving your pension payment. After you begin receiving payments, you may change your option in certain circumstances, as shown in the chart below.

Under the…	You may…
Single life payment option*	• change the payment option to a survivorship option if: ♦ you get married after the first payment has been made; and ♦ you make the change within 12 months of your marriage.
Survivorship payment option	• change the designated beneficiary to your new spouse if:* ♦ you get married or re-married after the first payment has been made; ♦ the designated beneficiary dies; and ♦ you make the change within 12 months of your marriage or death of the beneficiary, whichever is later. • terminate the survivorship option and change the designated beneficiary to your current spouse if:* ♦ the designated beneficiary gives up all rights to the survivorship; and ♦ you make the change while the designated beneficiary is still living and within 12 months after the effective date of the relinquishment.
Guaranteed payment feature	• change the designated beneficiary at any time before or after Plan payments begin.
Lump sum death benefit feature	• change the designated beneficiary at any time before Plan payments begin.

* You may not make this change unless all optional payment features are terminated. You may select new optional payment features when you make the change.

Death Benefits

In certain circumstances, the Retirement Plan pays death benefits if you die. These circumstances are described next.

If You Die During Active Service

The Plan pays a death benefit to your beneficiary or estate if you die while you are:

- Actively at work;
- Totally disabled (as defined in the Long Term Disability Income Plan); or
- On an authorized leave of absence.

The benefit equals the greater of:

- Your basic annual salary at the time you die (rounded up to the next $1,000 if not an even multiple of $1,000); or
- The value of your PCO account.

Your beneficiary may choose to receive this benefit:

- As a lump sum payment; or
- In monthly installment payments for up to 20 years.

If You Die During Retirement

If you die while you are receiving pension benefits, the benefits your survivors may receive depend on the payment option you selected. Your beneficiary or estate receives any benefits you elected to provide under:

- A survivorship option;
- Guaranteed payments; or
- A lump sum death benefit.

Your beneficiary or estate may also receive your pension payment for the month in which you die.

Your Employer provides an additional insurance death benefit of $5,000 which is not part of the Retirement Plan, if you:

- Retire at age 65 or older with five or more years of service; or
- Retire before age 65 and your age plus years of service equals at least 80.

If you want to provide a larger death benefit, you should read about the Plan's lump sum death benefit described earlier under the heading ***Optional Payment Features*** or visit *Benefits Express On-Line*.

If You Die During Deferred Retirement

If you die after you have retired but before your pension benefit payments have begun, your spouse is entitled to a Deferred Retirement Survivor Annuity (DRSA) death benefit. The calculation of the benefit depends on your age when you die, as shown in the chart below.

If you…	Then your spouse…	Which begins…
die before you reach age 50	receives a 50 percent survivorship benefit calculated as if you had retired on your date of death and selected it on the day before the day you would have turned 50	in the first month following the month you would have reached age 50
die at age 50 or older	receives a 50 percent survivorship benefit calculated as if you had retired and selected it on the day before you died	in the first month following the month in which you died

If the total value of your DRSA is $5,000 or less, your surviving spouse will receive a lump sum payment.

Your Beneficiary

If you are married, your spouse is automatically your sole primary beneficiary. Your beneficiary receives any Plan benefits payable if you die. To designate someone other than your spouse as your primary beneficiary, you must provide written and notarized consent from your spouse.

If you are not married, your estate is your automatic primary beneficiary unless you name someone else.

You can change your beneficiary(ies) or designate a contingent beneficiary using *Benefits Express* or *Benefits Express On-Line*.

Whether you are married or single, you can always designate a contingent beneficiary without anyone's consent. A contingent beneficiary becomes entitled to receive your Plan balance if you die and your primary beneficiary has predeceased you.

If you and your primary beneficiary die at the same time, the Retirement Plan ordinarily presumes that you survived your primary beneficiary. If you want the Retirement Plan to consider that your primary beneficiary survived you, you must contact the *Benefits Express Center*.

Estimate Of Your Retirement Benefits

You may request an estimate of your Retirement Plan pension through *Benefits Express On-Line* or by calling *Benefits Express*.

Other Information About Your Retirement Plan

This section includes other important information about your Retirement Plan.

IRS Limits On Pension Benefits

From time to time, the Internal Revenue Service (IRS) establishes certain maximum limits on pension payments. They affect only those employees with very high pension benefits. The IRS limits the compensation the Retirement Plan can use to calculate benefits.

- The compensation limits for 2002 for employees who began participation in the Thrift Plan after 1995 is $200,000. This limit is indexed for the CPI and increases in multiples of $5,000; and
- The compensation limits for 2002 for employees who began participation in the Thrift Plan before 1996 is $295,000. This limit is indexed for the CPI and increases in multiples of $5,000.

The IRS also places an annual limit on how much the Plan can pay a retiree.

The Federal Reserve has established a nonqualified Retirement Benefit Equalization Plan (BEP). Together, the Retirement Plan and BEP will pay retirees the amount that they would have received from the Retirement Plan if not for IRS compensation and pension limits.

Other Limits

The Plan also provides that your normal retirement pension allowance can’t be more than 80 percent of your final average salary. If it is, your Plan benefit will be reduced and the reduction will not be restored by the nonqualified BEP.

Assignment Of Benefits

Except as required by applicable law (such as payment of a federal income tax levy), benefits provided under the Plan are not subject to sale, assignment, alienation, attachment, garnishment, pledge, bankruptcy, or any other form of transfer.

However, your Plan benefit can become subject to a property or other financial settlement in case of a divorce. The court may then issue a Qualified Domestic Relations Order (QDRO), which could award a portion of your benefit to someone other than you or your designated beneficiary. A QDRO is a court order related to divorce or separation which provides child support, alimony, or marital property rights to your former spouse, your child, or another dependent. Contact your Human Resources Department if this situation applies to you and they can arrange to send you or your attorney a model form of a QDRO.

Pension Benefit Guaranty Corporation

The Retirement Plan is not covered by the Employee Retirement Income Security Act of 1974 (ERISA), so the Pension Benefit Guaranty Corporation (PBGC) does not insure your benefits under the Retirement Plan.

If The Plan Ends

If the Retirement Plan is modified, suspended, or terminated, you have a permanent vested right to the accrued benefit you have earned up to that time.

For More Information

Refer to the PLAN ADMINISTRATION section for other important information about the Retirement Plan.